

Administrative Policy No. 16.01

Subject: Internal Audit

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Internal Audit and Consultation
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State Administrative and Accounting Manual
Chapter 22 – Internal Audit

Institute of Internal Auditors:
[International Standards for the Professional Practice of Internal Auditing](#)

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Approved By: **Original signed by Lori Melchiori**
Senior Director, Office of Policy and Rules

Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the operations of Department of Social and Health Services (DSHS). It assists DSHS in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of DSHS's risk management, internal control, and governance processes.

This policy:

- A. Authorizes the internal audit of the Department of Social and Health Services (DSHS) operations, audits of department contractors, and service providers, as carried out by internal audit and consultation (IAC).
- B. Establishes the duties of the audit committee for oversight of the department's internal audit activities.
- C. Establishes procedures for DSHS's internal audit functions, including the development of annual audit plans, conducting audits and consultations and providing technical assistance.

- D. Outlines the procedures for completing and monitoring corrective action plans (CAPs).

Scope

This policy applies to all DSHS operations and governs:

- A. Internal audit and consultation's conduct of internal audits of all DSHS programs and organizational units, as well as audits of department contractors and service providers.
- B. The responsibilities of the audit committee related to internal audit activities.
- C. Corrective actions taken as the result of DSHS internal audits conducted by IAC.

Definitions

Assurance services (commonly known as audits) – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Internal audits provide department managers with objective and timely information to assist them in decision making and meeting the goals of the department.

Audit committee – a committee to assist DSHS management in performing its oversight responsibilities as they relate to financial and other reporting practices, internal control, compliance with laws, regulations, ethics, and economy and efficiency of operations, financial reporting process and the agency's process for monitoring compliance with laws and regulations and the code of conduct. The audit committee consists of seven members including the DSHS secretary, chief of staff - office of the secretary, deputy chief of staff – office of the secretary, three assistant secretaries and the chief risk officer as designated by the secretary.

Consultation services – services involving non-standard engagements. Advisory and related client service activities, the nature and scope of which are agreed upon with the client, are intended to add value and improve an organization's governance, risk management, control environment, and business processes without the internal auditor assuming management responsibility.

Corrective action plan (CAP) - a plan prepared by a division director or designee and approved by their assistant secretary, which includes:

- 1) Specific corrective actions the division will take to correct the audit, review, or survey finding;
- 2) Specific target dates by when the division will complete the corrective actions;
- 3) Monthly updates to include action taken to-date; and
- 4) The completion date for each action item.

Department - the Department of Social and Health Services (DSHS).

Engagement - an audit, consultation, or technical assistance.

Internal audit and consultation (IAC) - the office responsible for providing internal audit, consultation, and technical assistance services to DSHS management.

Quality assurance and improvement program (QAIP) – A QAIP is designed to enable an evaluation of the internal audit activity's conformance with the [International Standards for the Professional Practice of Internal Auditing](#) and an evaluation of whether internal auditors apply the [Code of Ethics](#). The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

Senior executives – (cabinet and subcabinet) – members of senior management including the secretary, assistant secretaries and senior directors.

Policy Requirements

- A. The chief audit executive (CAE) directs internal audit and consultation and all internal audit and consultation functions for DSHS, evaluating such matters as:
 1. Client health and safety.
 2. Accomplishment of established organization goals and objectives.
 3. Compliance with laws, regulations, policies, plans, procedures, grants, and contract terms.
 4. Economical and efficient use of resources.
 5. Safeguarding of assets.
 6. Reliability and integrity of information.
 7. Other issues and areas as determined by the audit committee or the secretary.
- B. The chief audit executive reports administratively to the deputy chief of staff – office of the secretary and functionally to the audit committee.
- C. Internal audit and consultation activities are conducted according to the [International Standards for the Professional Practice of Internal Auditing](#).
- D. The secretary's audit requests are the priority of IAC. All other requests are considered after the secretary's requests are met.
- E. IAC staff participating in internal audit activities, with strict accountability for confidentiality and safeguarding records and information, are authorized full, free and unrestricted access to any and all of DSHS and contractor records, physical properties and personnel necessary to carry out their assignments.
- F. The audit committee reinforces independence and objectivity in the prioritization and analysis of audit related issues, and provide reasonable assurance that department management is exercising due professional care.

- G. The office of accounting services (OAS) is the primary DSHS organization that processes financial adjustments resulting from audit activities. DSHS Administrations may make their own financial adjustments and coordinate with OAS if need be.
- H. Written requests for special audits, consultations or technical assistance may be submitted in writing or by email to the chief audit executive at any time during the year. These requests will be taken into consideration and may be discussed with the audit committee. The CAE considers special requests based on the priorities of the annual audit plan and the availability of IAC staff. The CAE will respond to the requestor of the special request within five business days.

Roles and Responsibilities

A. Audit committee

1. Establish and define the responsibilities of each internal audit activity.
2. Provide oversight in the preparation for and follow-up to internal and external audits of DSHS programs and services to help ensure the agency has a thoughtful, proactive and coordinated approach to audits and consultations.
3. Provide independent assurance and advice to the DSHS senior executives on the risk, control and compliance framework and its financial reporting responsibilities.
4. Review evaluations of risk, control, and governance processes.
5. Request audits and consultations that address risks to the members' own areas of responsibility, as needed.
6. Provide input (requested audits and consultations) into the annual audit and consultation plan.
7. Review the annual audit and consultation plan before its approval by the secretary.
8. Review audit and consultation results and ensure they are given due consideration.
9. Serve as a mediator and resolve intra-agency audit disputes as needed.

B. Chief audit executive

1. Direct and manage the work of internal audit and consultation according to the [Institute of Internal Auditor's Professional Standards framework](#).
2. Meet with senior management between March and May of each year to discuss potential audit and consultation subjects for the annual audit plan.
3. Develop the department's annual audit and consultation plan using a risk based methodology and the priorities set by the office of the secretary, audit committee and senior management. At a minimum the audit plan includes:
 - a. The audit and consultation work schedule for the fiscal year;
 - b. A summary of IAC's work during the previous fiscal year;
 - c. Notable audit findings and recommendations, together with emerging trends (if any);
 - d. Progress on the department's CAP implementation, monitoring, and completion;
 - e. The impact of IAC resource limitations and significant interim changes to the audit committee; and

- f. Confirmation of the organizational independence of the internal audit activities annually to the audit committee.
 - g. Report the progress of the quality assurance and improvement program to the audit committee.
 - h. Submit the draft annual audit plan to the audit committee at their June meeting each year for review and approval. The plan must be approved by the audit committee prior to implementation.
4. Manage the engagements contained in the annual audit and consultation plan.
 5. Meet quarterly with the audit committee to:
 - a. Provide a quarterly progress report on completing the annual audit and consultation plan;
 - b. Communicate any significant deviation from the approved annual audit and consultation plan; and
 - c. Provide an update on the corrective action plans.

C. Internal audit and consultation

1. Report to the chief audit executive.
2. Conduct audits, consultations and technical assistance per the annual audit and consultation plan, and as required.
3. Manage all IAC activities according to the following [Institute of Internal Auditor's Professional Standards framework](#):
 - a. Professionalism
 - i. The internal audit activity will adhere to the Institute of Internal Auditors' mandatory guidance including the definition of internal auditing, the code of ethics, and the international standards for the professional practice of internal auditing (standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The [core principles for the professional practice of internal auditing](#) include:

 - Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives and risks of the organization
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk based assurance
 - Is insightful, proactive and future focused
 - Promotes organizational improvement
 - ii. [The Institute of Internal Auditors' practice guides, position papers and practices advisories](#) will be adhered to, as applicable, to guide operations.
 - iii. In addition, the internal audit activity will adhere to relevant DSHS policies and procedures and the internal audit activity's standard operating procedures manual.

b. Code of ethics

The purpose of the [Institute of Internal Auditors' Code of Ethics](#) is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management and control.

c. Principles

- *Integrity* – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- *Objectivity* – Internal auditors exhibit the highest level of professional objectivity gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- *Confidentiality* – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- *Competency* – Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

d. Independence and objectivity

The chief audit executive will confirm to the audit committee at least annually, the organizational independence of the internal audit activities.

- i. The internal audit activity will remain free from interference by any element in DSHS including matters of audit selection, scope, procedures, frequency, timing, or report content, in order to permit maintenance of a necessary independent and objective mental attitude.
- ii. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their judgment.
- iii. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

D. Assistant secretaries

1. Provide input into the development of the annual audit and consultation plan through annual consultation meetings with the chief audit executive.
2. Request special audits that fall outside the DSHS annual audit plan by submitting an email or written request to the chief audit executive.
3. Approve and submit responses to IAC internal audit reports for their administration.
4. Approve and submit all internal audit corrective action plans for their administration.
5. Ensure timely and thorough completion of CAPs.

6. Submit a certificate of completion of corrective action plan to IAC certifying the final correction of all audit findings within their administration.

E. Division directors

1. Prepare and submit copies of their program's response to internal audit findings to their assistant secretary within 20 calendar days of the draft report.
2. Prepare and submit copies of their CAPs to their assistant secretary within 30 days of the final internal audit report.
3. Oversee and perform corrective action(s) in response to internal audits.
4. Report to the responsible assistant secretary on the action(s) taken to correct each finding.
5. Report CAP activity, changes in action steps or due dates to IAC by the 15th of each month until completion.
6. At their discretion request technical assistance that falls outside the DSHS annual audit and consultation plan.

F. DSHS employees

All DSHS employees are required, as requested, to provide assistance in fulfillment of internal audit activities.

Procedures

A. Assurance services (commonly known as audits)

IAC provides assurance/internal audit services and audits of department contractors and vendors.

1. Audits will be detailed in the annual audit and consultation plan or as requested during the year by the office of the secretary, assistant secretaries or senior management.
2. Audits follow the following process:
 - a. Written audit plans are developed with the stakeholders.
 - b. The audit plan is approved by the assistant secretaries or their designee.
 - c. Provide regular updates and maintain open communication on the status of the audit as agreed upon with the stakeholders.
 - d. Conduct an entrance and exit conference with the stakeholders.
 - e. Provide a draft report, final report and corrective action plan for each engagement.

B. Consultation services

IAC provides and promotes organizational improvement through consultation services to management. They are identified on the annual audit and consultation plan.

Consultations services are performed;

1. As determined during the audit planning process.
2. At management's request following an audit; to recommend standards of control for systems, or to review procedures before implementation.
3. As special requests are made by executive management unrelated to a specific audit.

C. Reporting and distribution of IAC information

1. Audit reports

a. Draft audit reports include:

- i. Audit findings;
- ii. Quality performance issues and opportunities for improvement; and
- iii. Recommendations for addressing audit findings and deficiencies.

b. Final audit reports may include:

- i. The auditee's timely response to the draft report; if submitted by senior management or their designee or by a principal of an external entity having undergone an audit.
- ii. The CAP developed by the audited program; if received by IAC prior to the issuance of the final audit report.

c. For findings of significant importance:

- i. If an internal audit finding indicates clients and the department are at serious risk, the IAC provides notification within one business day, through a management memorandum, to the DSHS secretary, chief of staff, deputy chief of staff – office of the secretary, and the respective assistant secretary.
- ii. IAC may recommend that the program take immediate steps to address problem areas.

d. Final audit reports are distributed to:

- DSHS secretary
- Audit committee members
- Relevant senior executives and the division director of the audited program
- Chief risk officer (ERMO)
- Director, finance division (FFAA - if applicable)
- Chief audit executive
- External audit liaison manager
- Office of financial recovery (if overpayments are identified)
- Other DSHS management staff affected by or involved in the audit
- Auditee
- Administration's audit liaisons (general audits only – information technology reports will not be distributed)

All audit reports, with the exception of information technology reports, are on the [Internal Audit Intranet SharePoint site](#). For information technology reports contact the chief audit executive.

2. Consultation reports

- a. A consultation engagement received as a request from the audit committee will have a report distribution limited to the audit committee and relevant senior executives and DSHS management team members as appropriate.
- b. Consultation engagements listed on the approved annual audit plan will have a report distribution to the audit committee and relevant senior executives and DSHS

management team members.

- c. A consultation engagement received as a special request by management will not necessarily result in a formal report and may not be subject to the distribution described above. The report will be limited to DSHS management team members designated by the requestor.

D. Identifying, reviewing, and tracking of internal audit corrective action plans (CAPs)

Internal audit and consultation:

1. Publishes internal audit report CAPs on the internal audit SharePoint site.
2. Tracks the content and timeliness of corrective actions taken, and selectively test the outcomes through follow up audits as directed by the annual audit plan.
3. Reports quarterly on the progress, exceptions, discrepancies, and departures from CAPs to the audit committee.
4. Collaborate with program staff and their finance division office regarding fiscal issues when requested.

E. Quality assurance and improvement program

1. Is overseen by the chief audit executive who reports to the audit committee:
 - a. At least annually, on the results of the ongoing internal assessments and periodic assessments; and
 - b. At least every five years, on independent external assessments.
2. Is maintained by internal audit and consultation.
3. Covers all aspects of the internal audit activity as it relates to the IIA Standards.
4. Includes evaluations of:
 - a. Internal audit activities' conformance with the definition of internal auditing, the IIA standards; and
 - b. Application of the code of ethics by internal auditors.